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HEADLINE: INSURANCE CARRIER CUTS LOSSES ON HIGH-RISK CLIENTS

BYLINE: BY TIM HEALY

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BODY:

Bettylou Valentine, executive director of Central Youth and Family Services, was told last fall that King County Medical Blue Shield would raise the monthly premium for her 17 employees from about $ 100 per month each to $ 150 per month. Half of the increase was related to a normal annual increase; half was because of a change in the way King County charges small employers.

Valentine took her business to Group Health Cooperative, which was already providing health benefits to some of her employees.

King County Medical lost her business, but it's a price the state's largest provider of health insurance says it has to pay as it revamps its pricing system to reverse underwriting losses on the small-employer segment of its business.

Last fall, King County Medical changed the way it calculates premiums for employers with between five and 25 employees, which account for about 20 percent of the insurer's total revenue.

King County Medical, like all Blue Shield insurers, was set up as a not-for-profit company to provide health insurance. It is governed by a board of business people and doctors, but it has no shareholders. Excess revenue (money earned over and above administrative and underwriting costs) is used to make capital improvements such as computers or facilities, or are put in a reserve to guard against years when claims are more than premiums.

King County Medical provides health insurance for more than 7,000 employers; 6,500 of them fall into the five-to-25-employee range. The insurer has about 17 percent of the total business and individual health-insurance market in Washington.

In 1988, King County Medical had a $ 15 million underwriting loss - the difference between what it took in in premiums vs. what it paid in claims and administrative expenses. More than half of the loss, $ 7.7 million, resulted from claims filed by small employers, said Walt Samodurov, manager of underwriting.

"We had become the dumping ground for small employers who couldn't afford health insurance with someone else," Samodurov said.

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The problem, he said, was that King County Medical was setting premiums for employers in only two broad categories. Two categories were not enough to allow the company to charge small businesses that were a higher risk premiums to cover them and still be competitive on low-risk employers. Other insurers, such as Safeco and Aetna, have as many as eight categories and tie premiums more closely to such factors as the industry and the age and sex of its employees.

For example, businesses such as taverns, and those in entertainment and health care are considered riskier than retailers because they average more health claims.

Insurers say employees in high-risk industries are exposed to illness or addictions more often than employees in low-risk industries.

Because King County Medical did not separate employers based on industry, it attracted many of the businesses that other insurers considered to be high-risk. But it was not charging the high-risk employers higher premiums. Hence, it became a dumping ground.

That changed last fall, when King County Medical assigned each of its small employers to one of eight categories to set new rates. For a few employers, the change was a blessing - they received health-insurance rate increases that were smaller than they were used to.

Eric Omli, owner of Nordic Services Inc. in Seattle, a general-construction contractor, said the company's 1990 insurance-rate increase was less than 10 percent. In the previous three years, the company experienced annual increases of between 18 percent and 23 percent each year.

But for others, such as Valentine, the change was a blow.

Samodurov said he expects the change will help King County Medical turn around its $ 7.7-million underwriting loss for small employers within 18 months. Valentine said the rate increase that her agency received was too much to absorb.

"Private, nonprofit agencies like ours are notoriously bad for not paying as much as government or government-funded agencies," Valentine said. "Because of that, we've always wanted to provide good benefits. We can compete a little in that way. When we heard about the health-insurance increase, we just couldn't afford it."

Valentine's agency is one of more than 1,300 small employers that King County Medical expects will eventually be given premium increases above the average increase because of the changed rating system.

The insurer says about 4,200 small employers will not get increases above the average 25 percent. About 1,000 will benefit from the rating change by receiving smaller-than-average increases.

Samodurov is sympathetic with employers such as Valentine. But he says King County Medical couldn't continue to charge high-risk groups less than the cost of carrying that business.

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For Tom Ritley, an independent broker who helps small businesses find health insurance, the change has meant explaining to some small employers why their rates are going up as much as 70 percent in one year. Ritley is president of Group Insurance Brokerage Inc. in Winslow.

King County Medical hopes a new discount for for no-smoking workplaces and non-smoking work forces will help cushion the blow of the rate increases.

The company is not the first local health insurer to provide no-smoking benefits, but it has put a great effort into promoting its programs and trying to sell them to employers.

Ritley said King County Medical is the only insurance company in this area that provides such benefits to small employers without requiring a detailed health history of every employee. He said many employers avoid insurers that require such histories because one employee with a history of medical problems can prevent the employer from getting insurance.

Ritley believes the new no-smoking incentives from King County Medical will mitigate increases for some small businesses.

"It's an appropriate move now, if not overdue," he said. "I think insurers can have some influence on encouraging workers to quit smoking. It's a well-recognized fact that people who don't smoke are healthier."

Last month, the federal Department of Health and Human Services fixed the direct cost of smoking in the United States at $ 52 billion, which was considerably higher than previous government estimates. In Washington state, the direct cost of smoking - largely found in health-care expenses - was $ 428.7 million.

Bob Rosner, executive director of the Seattle-based Smoking Policy Institute, which fights smoking and promotes no-smoking policies and activities, said the new government study demonstrates the need for more action like that of King County Medical.

Rosner helped King County Medical put together its program, which includes several parts:

-- Rate breaks for no-smoking companies.

-- A benefit that pays 75 percent of the cost of a smoking-cessation program.

-- Educational materials for any employer, whether a King County Medical customer or not, to start a stop-smoking campaign.

Winlock Pickering, president of King County Medical, said his company has already had a smoke-free workplace for several years. But he said the company thinks its new program can promote non-smoking all over the state as well as help its own bottom line.

"Certainly, it's good community relations," he said. "It's kind of a motherhood, ring-the-bells, wave-the-flag, good-guys thing to do. It's also good business for us. We may not see the full benefit right away, but it's got to benefit us down the road."

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The smoking benefit comes at an especially good time for small businesses that either must pay extremely high rates or can't get health insurance at any price.

The Wall Street Journal reported last month that some small businesses on the East Coast, particularly businesses in what are seen as high-risk industries, can't get insurance.

Ritley said the problem for small businesses in Seattle has more to do with costs being prohibitively high than with insurance not being available for any price.

Strategies appears weekly in the Business Monday section of The Seattle Times.

KING COUNTY MEDICAL

-- Headquarters: Seattle

-- President: Winlock Pickering

-- Employees: 1,200 in Washington

-- Business: Group and individual health insurance

-- 1989 revenue: Estimated between $ 650 million and $ 700 million

-- Major competitors: Group Health Cooperative, Blue Cross of Washington and Alaska, Aetna

-- Strategy: Charge small employers for health insurance based closely on the type of business the company is in and the sex and age of the company's work force. At the same time, King County plans to give employers credit for nonsmoking workplaces and work forces.

GRAPHIC: PHOTO PETER LIDDELL / SEATTLE TIMES: WINLOCK PICKERING, PRESIDENT, KING COUNTY BLUE SHIELD, WANTS TO TAILOR MEDICAL INSURANCE TO THE NEEDS OF THE COMPANY AND ITS WORK FORCE.

SUBJECT: INSURANCE; HEALTH, PERSONAL; PRESIDENTS

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